HAMILTON COUNTY TAX LEVY REVIEW COMMITTEE
138 East Court Street
Room # 603
Cincinnati, Ohio 45202

July 12, 2012

Hamilton County Board of Commissioners
Hon. Greg Hartmann – President
Hon. Chris Monzel
Hon. Todd Portune
138 East Court Street
Room # 603
Cincinnati, Ohio 45202

RE: Mental Health and Recovery Services Board Levy Review

Dear Honorable Board:

This is the report of the Tax Levy Review Committee ("TLRC") on the Mental Health Levy for the forthcoming five year period of 2013 to 2017.

On June 21, 2012 the Mental Health and Recovery Services Board ("MHRSB") voted unanimously to request that the TLRC recommend the Commissioners place the Mental Health Levy on the November 2012 General Election ballot on a "fixed yield" basis which would result in an increase of approximately 0.20 mills from the current 2.99 to an estimated 3.19 mills based on estimates from the County Auditor. The MHRSB's proposal is to maintain a fixed yield in levy funds for the next five years of not less than $187 million. A copy of the resolution from the MHRSB is included as Attachment A.

After careful consideration of the MHRSB's request and the report of the consultant hired by the County to review the MHRSB's operation and use of Mental Health Levy funds, TATC, Inc. and Management Partners, Inc. ("TATC"), the TLRC recommends that the Commissioners place the Mental Health Levy on the November ballot on a "fixed rate" basis as a renewal levy at 2.99 mills. The reasons for our recommendation are set forth below.

I. The TLRC Review Process

The TLRC:

(i) appointed a subcommittee to analyze MHRSB's operations
(ii) engaged, through Hamilton County, TATC to perform a management review of the MHRSB and its operations
(iii) met with the executive leadership team of the MHRSB
(iv) toured the MHRSB facility on Auburn Avenue, and
(v) held a public hearing in June 2012

The subcommittee was very satisfied with TATC's performance and assistance on this project. A copy of TATC's report to the TLRC is included as Attachment B. We also want to thank and acknowledge the County Administration staff that assisted us in this endeavor, particularly Lisa Webb. Lisa did an extraordinary job of walking the members of the TLRC through this process and supplying us with the information we needed to complete our review and recommendations.

II. Background on the Mental Health Levy and MHRSB

The current Mental Health Levy was approved as Issue 28 by Hamilton County voters at 2.99 mills in November 2007 for the five-year period ending December 31, 2012. Issue 28 was passed as a renewal of 2.74 mills and an increase of 0.25 mills by a margin of 55.25% for and 44.75% against. The five-year levy will have yielded approximately $187 million by the end of 2012.

The MHRSB currently disburses the vast majority of Mental Health Levy funds through contracts with 51 service providers that offer mental health and substance abuse programs to adults and children. Of the MHRSB's CY 2011 expenditures of $95.5 million, $91.3 million (95.6%) went to purchased services and the remaining 4.4% went to the operation of the MHRSB itself.[1] Thus, the most meaningful opportunity for cost savings and efficient use of tax levy funds lies in the pricing and administration of contracts by MHRSB with its service providers.

Under Ohio law, the MHRSB is the agency responsible for planning, establishing system goals and priorities, contracting services with certified providers, monitoring and coordinating mental health and alcohol and drug addiction recovery services, and evaluating service effectiveness and outcomes in Hamilton County. The MHRSB must encourage the development of a comprehensive community mental health system, bolster the creation and maintenance of high quality, cost effective, culturally sensitive services that are prevention, treatment and rehab focused, and protect the personal liberty of mentally ill persons so that they may be treated in the least restrictive environment.

A. Mental Health Service Populations

Priority service populations receiving the bulk of MHRSB funding include:

- Adult SMD: Adults with a severe mental disability
- Child SED: Children who are seriously emotionally disabled
- Adult SAMI: Adults with dual diagnoses of substance abuse and mental illness

Secondary service populations receiving the remainder of MHRSB funding are:

- Adult Non-SMD: Adults with mental health needs who are not severely mentally Disabled
- Child Non-SED: Children with mental health needs who are not seriously emotionally disabled
- Child CJS: Children with mental health needs who are in the criminal justice system
- Adults CJS: Adults with mental health needs who are in the criminal justice system

[1] TATC report p. 26.

B. MHRSB Programs and Services Provided

Programs and services funded by the MHRSB were provided to 14,684 adults and 7,619 children in FY 2011, representing a 25.7% increase in adult clients served and a 17.2% increase in children clients served since the last levy review in 2007 (which used FY 2006 data). While several types of services provided decreased over the five-year period of 2007 to 2011, other services provided increased over the same period, including Individual Counseling (+28.5%) and Individual Case Management (+16.8%), Group Counseling (+17.3%) and Group Case Management (+32.6%), and Medication/Somatic Services (+21.9%).[2]

Looking at the total number of services rendered (rather than clients served), in FY 2007 a total of 52,243 distinct services were rendered compared to a total of 59,519 in FY 2011. Thus while the number of clients served increased by 17.2% for children and 25.7% for adults, the actual number of services delivered to that larger client base only increased by 13.9% over the past levy cycle.

When these trends are further broken down between Medicaid and Non-Medicaid clients using the tables provided in the TATC report at pages 12 through 14, we find that between 2007 and 2011, there was a 25.6% increase in the total number of services provided to Medicaid clients while there was a 3.7% decrease over the same period of time in the number of services provided to Non-Medicaid clients. Thus, while the MHRSB did see an increase in the total number of clients and the total number of services delivered during the past levy cycle, those increases appear to have been associated with Medicaid clients, not non-Medicaid clients. Services for non-Medicaid clients are funded primarily with Mental Health Levy and other state funds and grants. As discussed below, as of July 1, 2012 the State of Ohio has assumed responsibility for administration of the Medicaid program, the area where MHRSB saw the greatest increase in service demand over the past five years.

Nearly two-thirds of the MHRSB's funds go to three types of services – 35% for Community Psychiatric Supportive Treatment (CPST) services, 16% for Counseling and 12% for Residential Treatment and Housing.[3] Talbert House and Greater Cincinnati Behavioral Health Services receive 18% and 17% of the levy funds from MHRSB, respectively. Central Community Health Board, Children's Home, St. Joseph's Orphanage and Central Clinic, combined receive another 29% of the levy funds managed by the MHRSB. Thus, six agencies are receiving about 64% of the levy funds and 45 other agencies receive the remaining 36%.

C. Fiscal Snapshot

At the end of calendar year 2012, the MHRSB's fund balance is projected to be $4,008,387 after allowing for outstanding encumbrances and the capital fund (which is restricted). TATC advises that this fund balance will become critical in supporting MHRSB in the coming levy period. The MHRSB's Operating Budget for CY2012 is estimated at $85.5 million on revenues of $75.9 million with a projected deficit of $9.6 million.[4] It should be noted however, that the prior levy was passed on an even yield basis with an assumption that revenues would be higher than expenses in the first few years of the five-year cycle and expenses would catch up in the latter part to result in a

[2] See Table of Services Provided Total Clients By Service Type, By Year on page 14 of TATC's Report
[3] TATC Report p.14.
[4] TATC Report pp. 26-27.

net neutral situation in terms of MHRSB's fund balance. [5] And that appears to be what happened as in CY 2008, 2009 and 2011, the MHRSB had a budget surplus of $5,496,056, $3,049,688 and $5,201,833 respectively (total of $13,747,577). In CY 2010 there was a budget deficit of $4,823,682 which combined with the projected $9,567,382 budget deficit for CY 2012 would take the five year total deficit to just $643,487 on total expenditures of $456,843,422 and total revenues of $456,199,935. The Mental Health Levy Funds accounted for $187,075,754 or 41% of the MHRSB revenues during the five-year levy period 2008-2012.

To keep this projection on track, MHRSB eliminated six positions in the past year in an effort to control expenses in light of falling revenues. In prior years, TATC reports that the MHRSB provided wage adjustments to its employees in 2008 (+2.82% average), 2009 (+2.63% average), 2010 (+2.55% average) and 2011 (+2.62% average). TATC reports that the MHRSB has frozen compensation of its employees for 2012. MHRSB expects to eliminate six to ten positions in the coming year as a result of the Medicaid elevation. Looking at the big picture, in an agency that had expenses ranging from $83.3 to $97.3 million over the past levy cycle, MHRSB expenditures for salaries, benefits and taxes were only $2,627,794 (CY 2008), $2,788,324 (CY 2009), 2,886,264 (CY 2010), $3,008,582 (CY 2011) and are projected to drop to $2,169,606 in (CY 2012). Simply stated, expense reductions at MHRSB itself cannot alone make up a projected budget deficit of $9.6 million in CY 2012. Cuts in funding to service providers would be required.

III. <u>Analysis of the TLRC</u>

As an initial matter, while we appreciate the MHRSB recommending that the TLRC accept and endorse the recommendation of TATC for a fixed yield levy, we feel doing so without more thought would be an abdication of our responsibility in this process. As citizen volunteers, the TLRC relies on TATC to gather the information and present options to the TLRC to be used in formulating our recommendation to the Board of County Commissioners. If the TLRC were merely to endorse the recommendations of the consultants, the Board of County Commissioners could simply hire consultants and do away with the TLRC. There is no question that TATC did an outstanding job of gathering the information and reviewing the operations of the MHRSB. But as we understand the Commissioner's policy, the job of the TLRC is to create a balance between the needs of levy-funded agencies and the tax burden on the taxpayers of the County.

A. <u>Uncertainty in Healthcare Funding and Medicaid Administration in Ohio</u>

We find our Nation, our State and our County in very uncertain times when it comes to many aspects of funding and providing healthcare. While much of the focus of this ongoing debate has been on primary and ambulatory care, mental health and recovery services are no exception to the uncertainty. Until a few weeks ago (and after TATC issued its report) many pundits predicted the Patient Protection and Affordable Care Act ("PPACA") would be stricken down in whole or in part by the U.S. Supreme Court, but it was upheld. It appears the future of the PPACA may lie in the hands of the American voter as they head to the polls to elect their President, Representatives and Senators in November.

On the national level, the PPACA defined "Mental health and substance use disorder services, including behavioral health treatment" as "essential health benefits" that must be provided by all Medicaid State Plans beginning in 2014 and in nearly all private health insurance plans. Given that the PPACA essentially requires all Americans be covered by some type of health

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[5] TATC Report p. 27.

insurance and that mental health and substance abuse services must be provided in those plans, this could very likely alter the provision of and funding for mental health and recovery services during the five-year levy cycle of 2013-2018. Obviously the devil is in the details and the politics remain to be worked out, but it would seem unwise to potentially burden Hamilton County taxpayers with a fixed millage increase now that may not be reversed in the future to provide at least some services that the federal government has decided must be funded by Medicaid and private insurance companies.

Turning to Ohio, effective July 1, 2012, the Ohio Department of Job and Family Services has now taken responsibility for processing and paying mental health and recovery service providers throughout the State for Medicaid-covered services. The processing and payment of these services had historically been performed by the MHRSB using funds from the Medicaid program. The so called "Medicaid elevation" will not be completed for a full year since Medicaid allows service providers to bill for services up to one year after delivery of services. Thus, the MHRSB will continue to process claims for services rendered on or before June 30, 2012 through June 30, 2013. The uncertainty associated with the elevation of Medicaid and the issues to be resolved with allocation of responsibilities between the State agencies and MHRSB will extend well into the five-year levy cycle of 2013-2018. Thus, MHRSB will no longer be administering the Medicaid portion of funding. Given that the demand for services by Medicaid clients was the area of increased demand that MHRSB saw over the past five years, that demand for more services would seemingly now be shifted primarily to the State of Ohio. We recognize that there will likely be scenarios where clients fall through the cracks of Medicaid and in other cases get duplicated services. But it seems to us that those are problems that are best solved by better oversight, administration and government, not by a tax increase.

In Hamilton County, the role of the MHRSB is being redefined as of this writing in light of the Medicaid elevation. In addition, the economy and property values in Hamilton County appear to have stabilized. Obviously there is great hope that the national, state and local economy will improve in the next five years and history suggests that it should as the country has been in an extended economic downturn for about five years already. In addition, significant pending property tax appeals create additional uncertainty for all levy fund recipients, including the MHRSB.

The uncertainties outlined above are but a few that gained the attention of the TLRC and cause us to be hesitant to recommend lightly that the County maintain the status quo and continue funding the Mental Health Levy on a fixed yield basis for the next five years.

B. The Financial Challenges Facing MHRSB

TATC based its recommendation of a fixed yield levy on what it called "two serious immediate challenges facing MHRSB" – the State elevation of Medicaid and potential revenue shortfall caused by growing service demand during the upcoming levy period.[6]

As noted by TATC, the State elevation of Medicaid results in about 48% of MHRSB's annual revenues and 50% of its billing activity being eliminated. MHRSB estimated this could result in elimination of between six and ten staff positions. TATC assumed six additional staff positions would be eliminated in its financial analysis.[7] TATC and the MHRSB also advised that the State elevation of Medicaid also created the need (also the opportunity) to modernize the

[6] TATC report p. 27.
[7] TATC report p. 29.

antiquated IT infrastructure that has historically been required by Medicaid. We applaud MHRSB's leadership in conjunction with Franklin and Cuyahoga Counties in developing a new system known as SHARES (Shared Healthcare and Recovery Enterprise System) that would replace the Medicaid required MACSIS with a more robust approach to client and provider management. MHRSB has estimated it will need $1,000,000 in capital funds in 2013 for the development and acquisition of the SHARES system. The TLRC is hopeful that the SHARES system will allow for increased efficiency at the service provider level and that MHRSB and its sister agencies in Cuyahoga and Franklin Counties can encourage Ohio's other 85 counties to join in the program to generate revenue or at a minimum reimburse MHRSB for a portion of the cost of developing SHARES.

The anticipated revenue shortfall identified by TATC relates to several factors including: (1) continued flat property tax values, (2) long-term impact of the Duke Energy appeal of its property taxes, (3) the transfer of the Probate Court's Civil Commitment Program from the Indigent Care Levy to the Mental Health Levy, (4) probable increases in costs associated with providing duplicate services to persons being served with both Medicaid and non-Medicaid funds, (5) increased service demands, and (6) incremental cost increases in provider services.

The MHRSB reports that the Medicaid elevation will give it the ability to narrow the number of service providers. This should allow the MHRSB to realize economies of scale and greater efficiencies and therefore address the duplication of services issues and minimize cost increases in provider services mentioned above. MHRSB also indicated that the Medicaid elevation will allow it to modify eligibility criteria. This too should allow MHRSB to better control costs and ensure that levy funds are being used to help those in our community that are most in need of services.

History predicts that the flat property tax values will not continue indefinitely. During the previous five years, levy yield to MHRSB has dropped 10.4% from $38,815,555 in 2008 to a projected $34,777,086 in 2012. While no one can say what the economic future holds, history would suggest that we will not experience such a similar decline and may very well see economic growth and consequently a growth in the County's tax base over the next five years. We can only assume that the County is looking at various models for this issue. We recommend that the County apply those models in this case to determine how significant an issue, if any, continued flat property values will be over the next five years for the Mental Health Levy. In addition, the Duke Energy appeal will likely be resolved in the next five years. If Duke Energy loses that appeal, it is our understanding that additional levy funds would be directed to MHRSB. Once again, we can only assume that the County has looked closely at this issue and should determine how significant an issue it may be in terms of the Mental Health Levy.

We believe that there are opportunities for the MHRSB to realize savings with its service providers. TATC completed an assessment of Hamilton County against Butler, Clermont, Cuyahoga, Franklin, Lucas and Montgomery Counties.[8] TATC reports that Hamilton County has the third highest level of persons receiving non-Medicaid support (41.03%) with only Summit (49.69%) and Franklin Counties (49.03%) having higher percentages.

In terms of expenditures per capita, Hamilton County falls in the middle of these seven Counties at $119.68. Summit ($141.26), Lucas ($141.16) and Franklin ($125.05) have higher per capita expenses while Cuyahoga ($101.67), Clermont ($83.35) and Butler ($82.28) have lower per capita costs for their mental health programs. Thus, Hamilton County's per capita cost is 17.7%

[8] TATC report pp. 20-21.

higher than Cuyahoga County, 43.6% higher than adjoining Clermont County and 45.4% higher than adjoining Butler County. While the demographics and demands of the urban Hamilton County and suburban Butler and Clermont Counties are certainly different, these differences seem rather large for neighboring counties. The fact that urban Cuyahoga County is 17.7% lower than Hamilton County in terms of cost per capita would seem to further support our observation. In addition, TATC notes that Hamilton County has the second highest expenditure per client at $4,361 (Clermont County being the highest at $4,950). TATC observed that, of the three large urban Ohio Counties, Hamilton County has the lowest market penetration (2.7% of population being served) when compared to Cuyahoga (3.3%) and Franklin (3.15%). Thus, Hamilton County is not at the bottom of the list in terms of cost per capita (our neighboring Counties are) and Hamilton County is second highest in costs per client while the County ranks third among the three largest urban counties in market penetration. On a macro level, we think this data reveals opportunities for MHRSB to maintain service levels consistent with other Ohio Counties at a lower overall cost. The TLRC believes that recommending a fixed yield levy would not promote a renewed effort to maximize the efficient use of Mental Health Levy funds.

Pages 37 to 39 of the TATC report, presents a reduction plan that was submitted by the MHRSB staff to the MHRSB Board. This plan proposes cuts in eight program areas that would yield a net reduction in expenditures of $4,092,759 beginning on July 1, 2012. While we thoroughly appreciate the MHRSB undertaking the effort to develop a reduction plan in light of decreased revenues, our review of these reductions reveals that in several cases the reductions are actually shifting of services to another entity or reductions that were formulated based on reduced demands (*i.e.,* sound fiscal administration and contract management).

One area for reduction is Adult Crisis Services which yields a savings of $459,173. It would seem this cut has minimal direct service impact because it was made due to psychiatric emergency services having moved to another facility resulting in a decline in persons seen. The second area proposed for reduction is Child Crisis Services at $498,886. Here again the cut would seem to have a minimal impact on services as the MHRSB notes that this service has less occupancy than anticipated and therefore the MHRSB will no longer over purchase capacity. A third area of proposed reduction in the amount of $606,367 is in the Criminal Justice County Programs. Here again the cut apparently has minimal impact on services as it appears the reduction in funding is for a facility that has been privatized and can now bill Medicaid. A fourth area of proposed reduction in the amount of $315,000 comes in the Housing program. Here again, it is noted that the program has had less use than anticipated and MHRSB will decrease funding. A fifth area of proposed reduction in the amount of $1,435,000 is for Inpatient Services. This reduction is a result of a change in State regulations under which the MHRSB will no longer be responsible for (or receiving funds for) preventing admission to State hospitals. A sixth area of proposed reduction in the amount of $375,912 is for MCSA. It is noted that this project was restructured resulting in improved efficiencies that resulted in savings. A seventh area of proposed reduction in the amount of $312,421 is for the MHAP program. It is noted that with the Medicaid elevation fewer persons are expected to come to MHAP.

While there are undoubtedly going to be changes to services as a result of these changes, many of these reductions seem to be adjustments due to changes in circumstances where the services and funding were shifted elsewhere or simply not needed. The eighth area for proposed program reduction representing a cut of $90,000 is in School Based Services. It is noted that the program is no longer possible to fund because the first priority is treatment services. The anticipated impacts of these cuts will be potentially making it more challenging for families to navigate the system and potentially duplicating services. This does seem to be more of a direct cut and elimination of services. Again, we believe recommending a fixed yield levy might not spur the MHRSB to seek other potential cost savings from its vendors and undertake a complete evaluation of the effectiveness and need of certain existing programs. The TLRC remains optimistic that with the Medicaid elevation and the ability of MHRSB to focus on its core mission with a core group of service providers, a strategic plan can be developed that allows for a similar level of effective services to be provided at a reduced cost. The taxpayers of the County have been doing more with less for several years and expect their funded agencies to do the same. That is not to say that MHRSB has not done so, but rather that MHRSB must remain vigilant and continue to seek opportunities to realize efficiencies and economies of scale among its service providers.

The Commissioners have decided to transfer the Probate Court Civil Commitment program out of the Indigent Care Levy and into the Mental Health Levy. This program has a projected annual cost of $641,764. This program cannot be eliminated as it involves court required mental health evaluations. The question for the Commissioners is where these funds should come from. The TLRC does not feel that it is in a position to recommend the answer to that question. However, it does not appear appropriate to the TLRC to increase millage of the Mental Health Levy for such a small dollar program. We recommend the County Administration determine the best way of funding this program.

Due in part to the uncertainties associated with the PPACA, last year the TLRC recommended that the Indigent Care Levy be a three-year levy rather than a five year levy. That recommendation was accepted and the Indigent Care Levy was passed as a three-year levy. The TLRC recommends that the Mental Health Levy be maintained as a five-year levy. However, given that the PPACA may have an impact on funding of mental health services, we do recommend that a review of the Mental Health Levy be conducted simultaneously with the review for what will presumably be a renewal of the Indigent Care Levy in 2014. At that time and if necessary, the Commissioners might have an opportunity to address mental health funding issues. By 2014 there should be more clarity on the impacts of the PPACA on funding, the Duke Energy appeal may also be resolved and hopefully the County tax base will be growing once again.

For the reasons set forth above, the TLRC recommends the Commissioners maintain a fixed millage levy for the next five-year period for the Mental Health Levy.

Respectfully submitted,

Mental Health Levy Subcommittee of the
Tax Levy Review Committee

Chris Habel, Chair
Heather Harlow, Member
John Smith, Member
Eppa Rixey, Member
Mark Quarry, Member